DISSECTING OWNERSHIP DYNAMICS: HOW PROMOTER AND INSTITUTIONAL STAKES SHAPE FIRM RISK AND FINANCIAL RESILIENCE

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Abstract

This study investigates how promoter and institutional ownership influence firm-specific risk — both market-based (stock return volatility) and fundamental (Altman Z-score) — using a decade-long panel of Indian listed firms (2014–2024). Unlike prior studies that analyze ownership types in isolation, this research offers a unified empirical model incorporating both risk measures. The key contribution of the paper is the simultaneous estimation of the effect of ownership structures on two complementary dimensions of firm risk. The findings reveal that institutional ownership significantly reduces volatility, while promoter holding shows no significant impact on risk. Larger firms are more financially stable. These insights are especially relevant for governance reforms and investor strategy in emerging markets.

Keywords: Ownership Structure, Institutional Investors, Promoter Holdings, Stock Return Volatility, Altman Z-Score, Corporate Governance

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1. INTRODUCTION

An important part of corporate finance has always been discovering how various ownership structures affect a company's risk and ability to get through tough financial times. Traditional agency theory (Jensen & Meckling, 1976) posits that concentrated ownership by insiders or institutional investors may mitigate managerial opportunism. Nonetheless, recent findings from developing economies suggest that the effects of such ownership are contextually complex and may not uniformly reduce corporate risk (Neetu & Goyal, 2025). It is particularly crucial to comprehend the nuanced impact of promoter and institutional ownership on firm risk in India, where family-run businesses are prevalent, institutional investors are increasingly common, and regulations are evolving in distinct ways.

Executive ownership may intensify dividend tunneling, particularly in environments characterized by inadequate minority shareholder protection and substantial state ownership; nevertheless, analyst coverage can alleviate this impact (Bian et al., 2022). Institutional investor cross-holdings, especially within the same industry, significantly reduce a firm's cost of equity by lowering idiosyncratic and informational risks (Zhou et al., 2022). This study enhances existing research by analyzing the concurrent effects of ownership on financial distress (assessed through Z-scores) and market-based risk (measured by volatility) in Indian publicly traded companies. It utilizes modern panel models and firm-level data from post-2015. A lot of the research looks at industrialized economies or treats ownership as a single idea. Moreover, there is a scarcity of research aimed at differentiating the impacts of promoter and institutional ownership on particular firm-level risk indicators, such as stock return volatility, which signifies market-perceived risk, and the Altman Z-score, a composite index that assesses the likelihood of financial distress or bankruptcy.

In this context, this study seeks to augment the empirical understanding of how diverse

ownership structures affect financial risk, employing the Altman Z-score and stock return volatility as principal metrics. It also examines the impact of a company's size, as indicated by its market capitalization, on these ownership-risk relationships. This study employs a decade-long panel dataset (2014–2024) from Indian firms to advance the governance-risk literature by analyzing the specific roles of promoter and institutional ownership, clarifying the mechanisms by which they influence financial stability, and offering policy-relevant recommendations for investor protection and corporate governance reform in emerging economies.

The study is conducted with four primary objectives:

- to evaluate the influence of promoter ownership on financial risk;
- to analyze the risk-mitigating or impairing effects of institutional investors;
- to compare the relative impacts of promoter versus institutional ownership on firm stability and volatility;
- to investigate the moderating effect of firm size within these dynamics.

The rest of the paper is organized as follows. Section 2 overviews the theoretical background on the topic. Section 3 describes the research framework. Section 4 analyses and discusses the findings. Section 5 ends the paper with a conclusion.

2. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

This study employs various theoretical frameworks to elucidate the impact of corporate ownership on financial risk and stability. Although individual studies have evaluated the effects of promoter or institutional holdings, comparative analyses across emerging markets, utilizing extensive panel data frameworks, are still insufficiently investigated. Furthermore, there is a scarcity of studies that simultaneously model both market-based risk (e.g., return volatility) and accounting-based risk (e.g., Altman Z-score) within a unified ownership structure framework, especially in the aftermath of the global financial crisis. Some research underscores the significance of institutional context in ownership-risk dynamics, primarily concentrating on risk-taking behavior; Al-Matari et al. (2017) draw attention to the insufficient empirical focus on combined risk metrics.

2.1. Promoter holding and financial distress risk

For a company to be financially stable, it needs to hold promoters. According to agency theory (Jensen & Meckling, 1976), concentrated ownership, particularly when held by promoters or founding families, can lower agency costs by making sure that managers' decisions are in line with the interests of shareholders. In family-owned or promoter-driven businesses, this alignment may lead to greater accountability, a long-term strategic outlook, and more cautious financial management, thereby diminishing the probability of financial challenges. When promoters own too much of a company, it can lead to entrenched management, less independence for the board, and tunneling. All of these things can make things less clear and make money more risky. Recent studies furnish substantial empirical corroboration for this dual character. For instance, the Indian manufacturing firms exhibiting intermediate promoter ownership levels (30–50%) generally possess elevated Altman Z-scores, signifying enhanced financial stability and health (Kanoujiya et al., 2023). Promoter ownership in Indian non-financial firms exhibits a non-linear (inverse U-shaped) relationship with financial distress. This indicates that while initial increases in promoter holdings may mitigate distress, excessive concentration beyond a certain threshold could exacerbate it (Kanoujiya et al., 2023). These findings indicate a non-linear relationship between promoter ownership and financial stability, warranting further examination. So, we come up with the first hypothesis as:

H1: Promoter ownership does not have a significant correlation with reduced financial distress.

2.2. Institutional ownership and risk monitoring

People see institutional investors as strong external monitors who can make sure that rules for good governance are followed and prohibit people from taking too many risks. In theory, their presence correlates with improved financial oversight, reduced agency costs, and more judicious financial behaviors (Bushee, 1998). Empirical studies validate their role in risk reduction. Indian listed companies are less likely to take on unique risks and are more likely to pay back their debts when more institutions invest in them (Jha & Tiwari, 2025). Stricter disclosure norms are necessary, especially in emerging economies, to protect minority interests, especially in the context of concentrated ownership (Ghosh, 2025). These findings suggest that institutional ownership plays a stabilizing role, particularly in markets with potentially inadequate disclosure and enforcement mechanisms. The second hypothesis is consequently formulated as:

H2: More institutional ownership does not lead to less risk for the company and better financial health.

2.3. Firm size and financial stability

In research about ownership, the Altman Z-score is still an effective method to figure out how likely it is that an individual will have financial difficulties. The Z-score combines different measures, like profitability, liquidity, debt, and market value, to show how stable a company is. The way a company is owned affects a lot of things about it, like its retained earnings, equity base, and total assets. This can occur directly via policy decisions or indirectly through governance mechanisms. Dallocchio et al. (2020) confirm the relevance of governance variables in predicting financial distress, wherein distress is predicted using the Z-score and its variables, while Braunsberger and Aschauer (2025) provide a comprehensive review of the Altman Z-score and modern machine learning models for predicting corporate failure, particularly within a technology adoption framework. These results confirm the significance of the Z-score as a pivotal construct in our research, particularly in contexts characterized by varied ownership types.

Firm size has long been linked to financial stability because it makes it easier to get money, diversify, and run a business on a large scale.

Companies with higher Altman Z-scores (Ohlson, 1980) are better able to handle shocks and stay in business when situations get tough. Recent empirical studies persist in highlighting size as a protective factor amid financial uncertainty. This conversation brings us to the third hypothesis:

H3: Firm size does not have any significant influence on Alman Z-score.

2.4. Ownership structure and stock return volatility

The ownership structure also changes how information moves in and out of the company, which affects how volatile stock returns are. The risk-reduction theory (Demsetz & Lehn, 1985) posits that concentrated ownership, whether through promoters or institutions, can mitigate return volatility by improving alignment and governance. However, this effect is not unilateral. Concentrated ownership can complicate the evaluation of a company's performance, obscure capital markets, and heighten uncertainty (Bhattacharya & Daouk, 2002). Hegde et al. (2020) have found that firms with a higher concentration of family ownership outperform in terms of market returns compared to their peers. The size of the board consistently enhances return volatility, although foreign and managerial ownership diminish volatility levels, and board independence exhibits no significant impact (Le, 2024). These discrepancies necessitate further investigation into the correlation between ownership structure and stock return volatility. The fourth hypothesis to be tested is:

H4: Promoter and institutional ownerships are not related to stock return volatility, indicating enhanced governance and transparency.

3. RESEARCH METHODOLOGY

This study used a quantitative panel data methodology to examine the influence of ownership structure on firm-level financial risk in emerging economies, with a specific focus on Indian enterprises. This research employs an unbalanced panel consisting of 39 publicly traded Indian companies from 2014 to 2024, yielding 429 firm-year observations. The dataset covers 11 years, but not all companies report consistently during this time because of normal business changes like initial public offerings, delistings, restructuring, and not fully disclosing information for some years.

To ensure analytical robustness while maintaining external validity, firms were included if they possessed a minimum of six consecutive years of data for essential financial variables (e.g., total assets, earnings before interest and taxes, working capital), ownership structures (promoter and institutional holdings), and risk indicators (Altman Z-score, return volatility). This threshold for inclusion strikes a balance between having enough data and having a wide range of samples. The panel's lack of balance, where not every company has data for every time period, is a common problem in applied financial research. Hsiao (2014) and Baltagi (2008) assert that fixed effects (FE) and random effects (RE) estimators retain their validity and efficiency in unbalanced panels, contingent upon the implementation of suitable controls for heterogeneity. By preserving this real-world heterogeneity, the study encapsulates a more authentic cross-section of ownership dynamics and risk, especially pertinent to the unstable and reform-oriented Indian corporate environment.

This time frame lets us see how things have changed in India since the global financial crisis, how corporate governance has changed, and how ownership patterns have changed. The main dependent variables in the study are stock return volatility (*Volatility*), which shows market-based risk, and the *Altman Z-score*, which shows basic financial health. Return *Volatility* is figured out by looking at the rolling standard deviation of daily stock returns over three-month periods.

The *Altman Z-score* is determined by applying standard ratios that show profitability, liquidity, leverage, and market value. Ownership structure is operationalized via two principal independent variables: promoter shareholding (*Promoter ownership*) and institutional shareholding (*Institutional ownership*), quantified as the percentage of total equity possessed by each group. The study utilizes both FE and RE panel regression models to evaluate the presented hypotheses. A Hausman test is performed to ascertain the more suitable model specification. Control variables encompass business size (log of market capitalization), debt-equity ratio, and industry dummies to address sector-specific influences. The variance inflation factor (VIF) test looks for multicollinearity, and the Breusch-Pagan Lagrange multiplier (LM) test looks for RE. The data comes from the Capitaline and ProwessIQ databases, which have accurate ownership and financial information on companies. To ensure the reliability of the results, companies with missing ownership or Z-score data for three or more years are excluded.

4. RESULTS AND DISCUSSION

The impact of ownership structures on firm-level risk was analyzed using a structured empirical technique. The research was launched using descriptive statistics and correlation matrices. This was helpful in comprehending how key variables are distributed and how they are related to each other. Next, multicollinearity was checked for, and a model was chosen using the Hausman test. Following that, FE and RE panel regressions were conducted for the *Altman Z-score* and return *Volatility*, which served as dependent variables. Below, the results and hypothesis testing are discussed in the following paragraphs.

4.1. Initial diagnostics

Prior to hypothesis testing, the dataset underwent preliminary diagnostics to validate the robustness of the regression models. Descriptive statistics validated a broad variation of ownership patterns, business sizes, and risk outcomes (*Altman Z-scores* and *Volatility*), demonstrating adequate variability for estimation. Correlation matrices indicated weak correlations across predictor variables, and VIF analysis validated the removal of the debt-equity ratio due to multicollinearity issues. Hausman tests were used to choose the panel regression models. These tests showed that the FE model was good for the Z-score regression and the RE model was better for the volatility model.

4.2. Estimating models and testing hypotheses

The investigation continued with panel regression estimations, including both the *Altman Z-score* and *Volatility* as dependent variables in distinct models. The Hausman test was used to evaluate FE and RE estimators. It indicated that RE should be used for both specifications. Diagnostic tests showed no major multicollinearity (leverage was removed based on the VIF and correlation matrix), and the variables were in ranges that were acceptable for further inference. Table 1 shows the results of the regression.

Table 1. Summary of panel data regression results

Variable	*Altman Z-score (Coef.)*	*p-value*	*Sig.*	*Volatility (Coef.)*	*p-value*	*Sig.*
Promoter ownership (%)	335.24	0.865	NS	-0.2788	0.339	NS
Institutional ownership (%)	-1551.76	0.329	NS	0.6427	0.005	✓
ln(Market Cap)	126.17	0	✓	-0.2137	0.071	(*)
Altman Z-score	-	-	-	5.9E-05	0.237	NS
Volatility	0.0466	0.767	NS	-	-	-

*Note: * significant at 10% significance level.*

4.3. Promoter ownership and financial hardship (*H1*)

The regression coefficient for *Promoter ownership* in the Z-score model is positive (335.24), which means that it is likely to be good for financial stability. But the association is not statistically significant ($p = 0.865$). This means that, after considering the size and volatility of the firms, the concentration of promoters does not have a big effect on the Altman Z-score in this sample. Consequently, *H1* lacks support. This outcome diverges from prior research, which may be attributable to sectoral disparities or nonlinear influences (e.g., threshold effects at 50%+ ownership). A subsequent study may investigate segmented promoter brackets or interaction effects.

4.4. Institutional ownership and financial risk (*H2*)

The coefficient of *Institutional ownership* in the volatility model is positive and statistically significant (0.6427, $p = 0.005$), indicating that when institutions hold a larger proportion of a company's shares, the market tends to be more volatile. This is surprising because institutions are usually considered stabilizing monitors. One way to interpret this is that institutional investors tend to prefer liquid, high-volatility companies. It could also indicate short-term thinking among some institutions in emerging markets. Therefore, *H2* is only partially supported, as institutional holdings seem to increase volatility rather than reduce it. The Altman Z-score model shows that *Institutional ownership* has a substantial negative coefficient (-1551.76), but it is not significant ($p = 0.329$), indicating a weak association with financial distress.

4.5. Firm size and financial stability (*H3*)

The *ln(Market Cap)* variable shows a high positive relationship with the Altman Z-score ($\beta = 126.17$, $p < 0.001$), confirming that bigger companies are in much better financial shape, which is in line with what other research has found (Le et al., 2024). This supports *H3* and shows how scale, diversification, and access to financing can help people in trouble.

In the volatility model, the coefficient is negative (-0.2137) and marginally significant ($p = 0.071$). This means that bigger companies may also have slightly less market volatility, but the effect is not as strong as in the Z-score model.

4.6. Stock return and ownership structure volatility (*H4*)

The coefficient in the volatility model for *Promoter ownership* is negative (-0.2788), indicating that it may help mitigate risk. But the link is not statistically significant ($p = 0.339$). *Institutional ownership*, although considerable, exhibits a positive correlation with volatility.

Therefore, *H4* isn't supported as it currently stands. The anticipated inverse correlation between ownership and volatility is observed for promoters in a directed manner, albeit not significantly; conversely, it is reversed for institutions, indicating context-specific behaviors associated with different ownership kinds.

4.7. Implications and inference

The results of this study have significant ramifications for both corporate governance scholars and practitioners, especially in emerging economies such as India, where ownership structures are frequently intricate and firm-level risks are exacerbated by external shocks and regulatory changes. The study provides a holistic view of the impact of various ownership structures and firm size on corporate stability by simultaneously modeling market-based risk (volatility) and basic financial risk (Altman Z-score).

4.2.1. Promoter ownership: Restricted predictive capacity, intricate nonlinear impacts

Historically, promoter ownership has been regarded as a means for enhanced oversight and enduring stewardship; however, the findings of this study indicate no statistically significant effect of promoter shareholding on either the Altman Z-score or volatility. This does not mean that it is not important; it just means that the effect is not the same for all levels of ownership or sectors.

From a policy point of view, this shows that there have to be more detailed regulatory disclosures about promoter pledging, voting rights, and interlocking directorships, which could show hidden risk pathways. Regulators like the Securities and Exchange Board of India (SEBI) would want to require filings to show disaggregated promoter ownership levels (for example, 0–25%, 25–50%, and > 75%), so that investors and analysts can look at how risk and governance quality change in non-linear ways. The results are a warning for investors, especially retail investors who use promoter shares as a measure of a company's stability: strong

promoter ownership does not always mean that the company is financially stable. It emphasizes the necessity of transcending superficial metrics to conduct a more profound analysis of promoter behavior, related-party transactions, and dividend policy.

4.7.2. Institutional investors: Surprising role in causing market volatility

The most surprising discovery is that institutional ownership has a positive and significant effect on return volatility, which goes against the common belief that it has a stabilizing effect. This may be because more short-term or algorithmic trading funds are getting involved. These funds are seeking momentum gains rather than long-term value development. Institutional investors may also seek large-cap, high-beta companies, which are inherently more volatile. This contradicts the premise that having more institutions automatically reduces risk for companies. It also shows SEBI and the Reserve Bank of India (RBI) how important it is to categorize institutional investors (for example, mutual funds vs. sovereign wealth funds, passive vs. active investors) in market statistics. Taxation or disclosure rules that penalise excessive portfolio churn may be necessary to encourage long-term investing in public policy. The findings prompt institutional investors to reevaluate their governance engagement initiatives. If institutions are shown to exacerbate volatility instead of mitigating it, their stewardship codes and environmental, social, and governance (ESG) narratives may be called into question. Investment committees should think about how their own actions might affect the behavior of stock prices, especially in companies that don't trade much or are owned by families.

4.7.3. Company size: A steady defense against money problems

The size of a company, as measured by its market capitalization, is a strong indicator of its financial stability since it has a positive effect on the Altman Z-score. This is what theory says should happen: bigger companies have more ways to make money, easier access to financing, and more trust from investors, all of which help them weather financial crises. This has important consequences for lenders and credit rating agencies, who may want to give more weight to size-adjusted risk factors when deciding how creditworthy someone is. Policymakers could also customize financial safety nets, restructuring programs, or tax relief initiatives according to firm size, as smaller enterprises seem more susceptible to crisis. For investors, the size of a company may be a more trustworthy measure of its financial health than just its ownership structure. Portfolio allocation strategies that use both size filters and quality screening (such as consistent earnings and minimal leverage) may give superior protection against losses, especially when the economy is unstable.

4.7.4. Altman Z-score: Still important, but not directly affected

While no ownership variables exhibited a statistically significant direct impact on the Z-score, both theoretical and empirical evidence indicate that ownership influences financial policy — particularly capital structure and dividend distributions — which subsequently affect the fundamental components of the Z-score (e.g., retained earnings/assets, market value of equity/total liabilities). So, the Z-score is still a valuable overall measure, but academics and practitioners need to be aware of how sensitive it is to accounting policy decisions, ownership's effect on earnings retention, and sector-specific norms. For example, companies with a lot of promoter ownership might choose to be conservative with their dividends, which would increase their retained earnings and Z-score. However, this connection would not be seen unless financial policy behavior is modeled directly.

4.7.5. Moving toward a more detailed understanding of ownership and risk in emerging markets

One of the study's broader contributions is its examination of both market-based and fundamental risk indicators. In emerging economies characterized by dynamic market microstructures and concentrated corporate ownership, binary interpretations of ownership impacts may prove to be erroneous. The two findings — institutional ownership raises volatility but not distress risk, and promoter holding has no direct influence on either — show that we need multi-dimensional governance indicators. This particularly matters for international investors and ESG funds, who often use surface-level ownership data as stand-ins for governance quality. This study prompts a more profound examination of ownership dynamics, tenure, alignment mechanisms, and institutional activism styles in evaluating firm-level risk in Indian equities.

5. CONCLUSION

This study critically examines how different forms of ownership — promoter shareholding and institutional investment — interact with firm-level risk and financial resilience among Indian firms. Surprisingly, promoter ownership did not have a statistically significant effect on financial stability or volatility. This suggests that its effect may be nonlinear or peculiar to the setting. This necessitates more detailed disclosures of promoter-related governance aspects, including pledges, control rights, and transactions with linked parties. At the same time, institutional investors, who are frequently thought of as stabilizing forces, were shown to make returns more volatile. This suggests that short-term and algorithmic trading tactics are becoming more important. These results contradict established beliefs about ownership arrangements and underscore the need to classify institutional investor categories in market-level reporting and policy formulation.

Market capitalization became a dependable measure of financial stability; nonetheless, the lack of direct ownership impacts on the Altman Z-score underscores the mediating influence of corporate policies such as dividend distribution and capital structure. Overall, the results show that ownership data alone may not be a reliable indicator of governance quality, especially in emerging markets where ownership is concentrated and rules are changing. Policymakers should push for more detailed and comprehensive governance reporting, and investors should use ownership data along with

behavioral and firm-size filters to get a better picture of risk. These data are especially useful for regulators, credit agencies, and ESG-focused investors seeking to understand how risky Indian companies really are.

This study provides significant insights into the complex effects of promoter and institutional ownership on financial risk at the corporate level. Nonetheless, its constrained sample size and absence of industry diversification limit its wider applicability. Ownership characteristics were analyzed collectively, disregarding the distinctions between types of promoters or institutional investors. The static properties of the employed panel models impeded a comprehensive examination of dynamic effects and causality. Future research should employ dynamic techniques and disaggregated ownership categories to elucidate more complex governance-risk interrelationships.

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